DEPARTMENT OF CORPORATIONS
California's Investment and Financing Authority

Before You Buy a Franchise

It is important to investigate <u>before</u> you invest in a franchise.

Do a Background Check

Call the Department of Corporations at 1-866-ASK-CORP (1-866-275-2677) and ask if the franchise you are considering is registered (or has filed a notice of exemption from registration) in California, and ask whether the Department has brought any public enforcement actions against the franchisor.

Request Disclosure From the Franchisor

The franchisor must give you a detailed disclosure document (Uniform Franchise Offering Circular) containing important information at least 10 days before you pay any money or legally commit yourself to purchase the franchise. Read and understand the disclosure document and the franchise agreement.

Consult with Experienced Professionals

Seek assistance from an attorney, accountant or other professional who is experienced in the franchise business and can help you review the disclosure document and the franchise agreement. The money spent will help you understand all the risks associated with the franchise, and may help you avoid a bad investment.

Ask the Franchise Owners

Interview current and prior franchisees in person (they should be listed in the disclosure documents) and ask them about their experience with the franchise business and the franchisor. Avoid any "shills" – people paid to give favorable reports.

Review Consumer Education Materials

Several organizations publish materials for consumers to assist them in investigating a franchise business and understanding a franchise agreement. Examples of these organizations and their websites include:

- Department of Corporations, www.corp.ca.gov
- Federal Trade Commission, www.ftc.gov
- North American Securities Administrators Association, www.nasaa.org
- American Association of Franchisees and Dealers, www.aafd.org
- American Franchise Association, www.franchisee.org
- International Franchise Association, www.franchise.org